FEDERAL RESERVE BANK OF PHILADELPHIA

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BUSINESS REVIEW

The Tightrope of Monetary Policy

Federal Reserve Bank Directors

Business and Banking in 1960

BUSINESS REVIEW

is produced in the Department of Research. David P. Eastburn was primarily responsible for the article "The Tightrope of Monetary Policy," Evan B. Alderfer for "Federal Reserve Bank Directors," and J. Frank Rehfuss for "Business and Banking in 1960." The authors will be glad to receive comments on their articles.

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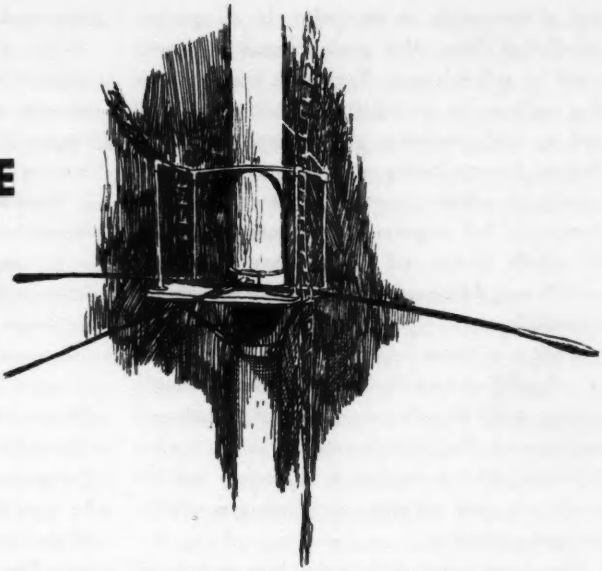
THE TIGHTROPE OF MONETARY POLICY



Making monetary policy is really very much like the process of day-to-day living. Each of us, each day, is forced to make countless decisions if only because there is just so much time to do all the things we want to do. As you read these lines, you are making a decision not to spend these few seconds doing something else. And so it goes, hour after hour, day after day.

Often we must decide between two equally desirable things. Perhaps you are torn whether to read the rest of this *Review* or turn to the next piece of literature in your in-box. Perhaps you compromise—read some of this and some of the other too. If so, you are deciding to give up something in one to get something from the other.

What's the connection with monetary policy? This kind of decision is the essence of policy-making. The Federal Reserve is constantly walking a tightrope between desirable objectives. Often the policymakers have to strike a compromise—get the best combination of two or more possibilities.

Thinking of Federal Reserve policy in this way helps toward an understanding of some of the major issues of the day. Specifically, this principle has a very real bearing on the relationship of the Federal Reserve to (1) economic growth, (2) Government, (3) social goals, and (4) interest rates.

Economic growth

Rapid economic growth is essential for many reasons, not the least of which may be our very survival as a nation. Yet growth is only one of the things we as a society want from the economy. We also want reasonably full employment

and a reasonably stable dollar. If we are unmindful of these other goals, pursuit of growth could be self-defeating. Trying so hard to grow that we bring on an inflationary boom, we could end up with recession and unemployment. So Federal Reserve policy must constantly consider growth in relation to other worthwhile goals—reasonably full employment and reasonably stable prices. In the end we can have sustainable growth and full employment only if we have a reasonably stable dollar.

Right now there is little or no immediate danger of inflation and the Fed has moved promptly to ease credit in order to encourage growth and employment. But unfortunately it now faces a different problem—trying to stimulate the domestic economy without complicating our international problems.

This country is running a deficit in its balance of payments. We have a substantial export surplus—over $4 billion a year. But we are also lending and spending abroad so that on balance we are paying out about $4 billion a year more than foreigners are paying to us.

How serious is this? On the one hand, it would be a mistake to exaggerate the danger. It is still true that this country has a very large amount of gold compared both with the world supply and with our commitments to supply gold to holders of dollar claims. The dollar is still the reserve currency of many countries. Some of our products can no longer compete with foreign goods as well as they could, but we have not—in the over-all—priced ourselves out of the world markets; we have a large favorable balance of trade.

Yet it would be equally dangerous to minimize the problem. Obviously, we can't keep on losing gold at this rate indefinitely. Foreigners are watching this country very closely, and it is important to maintain their confidence in the dollar. A sizable part of the deficit in recent months has been caused by money moving abroad to take advantage of higher interest rates. This situation means that declines in interest rates might cause some further outflow.

What all this adds up to is that in moving to stimulate the economy Federal Reserve policy must consider the effects of these moves on our balance of payments. We now walk the same tightrope most central banks have been walking for years.

Federal Reserve and Government

The reason we have a Federal Reserve is that Congress has decided money and credit need to be regulated in the public interest. The nature of the System reflects the public nature of its job. The Federal Reserve was established by Act of Congress and the Board of Governors reports to Congress. Members of the Board are appointed by the President and confirmed by the Senate. Three of the nine directors of each Federal Reserve Bank are appointed by the Board as, it is sometimes said, representatives of the public.* Our earnings, after expenses and a fixed dividend, are turned over to the Government.

Not only in its structure but in its operations the Federal Reserve gives evidence of its responsibility to Government. The Federal Government pays out and takes in almost $100 billion a year; it owes one-third of all public and private debt outstanding; it buys $1 of every $10 of goods and services produced in our economy. Obviously, the Federal Reserve must consider the financial needs of the Federal Government as

* Actually, as the following article points out, all nine directors of each Federal Reserve Bank have the duty of fulfilling a public responsibility and not of seeking simply to advance the interests of any particular group.

well as the financial needs of business or consumers.

So the Federal Reserve System must fulfill its responsibilities to the public and be responsive to what society wants as expressed through its elected representatives in Congress.

It is quite understandable, therefore, that Congress has always guarded against control of monetary policy by private interests. The arrangements cited above are evidences of this concern.

At the same time Congress has taken pains to see that monetary policy is insulated from day-to-day pressures of partisan politics. It has been well aware of a major lesson of history—that the sovereign frequently has been unable to resist the temptation to use the central bank—the money-creating mechanism—for his immediate political gain. He has often found it easier and politically more popular to finance large Government spending by creating new money rather than by financing through taxation.* Many an inflation stands as a monument to this fact.

Congress has tried to insure against this in a number of ways. For example, it has given members of the Board of Governors staggered terms of 14 years each in order to overlap several administrations. It has built checks and balances into the Federal Reserve System. The Board of Governors has been given sole responsibility over reserve requirements and margin requirements, but shares responsibility over the discount rate with the directors of the Federal Reserve Banks and over open market operations with presidents of the Reserve Banks. This arrangement reduces the concentration of authority. Finally, although the Fed works very closely with the Treasury, as already pointed out, Congress acted in 1935 to remove the Secretary of the Treasury from the position of ex officio member of the Federal Reserve Board.

So the Federal Reserve is responsible to the public, through Congress; but at the same time Congress has taken steps to guard against misuses either for private gain or for purely political purposes.

Federal Reserve and social goals

People today want certain things—a higher standard of living, better public services, etc.—and seem determined to have them one way or another. Federal Reserve policy is designed to help satisfy these wants. But there are times when insistence on satisfying all wants right away may bring on inflation. This is when demands for goods and services are so strong that the economy is unable to meet them even by producing at capacity. Some demands would have to go unsatisfied in any case. By restraining credit in these circumstances, the Federal Reserve can help to restrain demands temporarily until our productive machinery is better able to meet them. Monetary policy is simply one way of holding demands down so that prices don't go up. It restrains demands now so that they may be better satisfied later. In the process the Fed naturally comes in for criticism by those whose demands are restrained.

But society is concerned with more than satisfying these tangible wants. Among other things it wants freedom—in the way it earns and spends its money as well as the way it thinks and votes. We don't like people telling us what to do.

General monetary controls are designed in such a way as to interfere as little as possible in the detailed workings of the economy—to preserve as much economic freedom as possible. They affect the total supply of money and credit,

* Our Annual Report issue last year traced this historical pattern. See "Henry VIII Revisited," *Business Review*, January 1960.

leaving it up to the market place to distribute this over-all supply.

Now this indirect and over-all approach may not affect all sectors of the economy equally. In the collective decisions of all lenders, the credit market may distribute less to some sectors than to others. For example, when excessive demands bring about tight money, housing may be hit harder; new and marginal businesses may feel a greater impact.

Controls *can* be designed that are more selective in their impact. It is always possible to intervene in the market place. But in doing so we also infringe more on economic freedom.

When there are not enough goods and services to meet all the demands of would-be buyers, some demands must remain unsatisfied. The question is which ones. Inflation lets the price mechanism decide the question; excessive demands force prices of goods and services up so far that some people are unable to buy them. General monetary restraint relies on the credit market to decide the question; the Federal Reserve limits the over-all supply of money and credit in order to bring excessive demands into line with the supply of goods and services and thus help keep prices from rising; lenders then allocate the limited amount of funds. Some other kinds of controls, such as price and wage controls, require decisions by Government authorities as to whose wants will go unsatisfied.

The question remains one of the most basic of our time: how much are we willing to rely on relatively free markets and how much are we willing to interfere in these markets to satisfy the particular wants of particular groups?

Interest rates

In helping to achieve the goals of growth, full employment, and stable prices, the Federal Reserve influences the supply of money and credit. This naturally affects interest rates. If the demand for credit is strong, interest rates tend to go up. If demand is weak, rates tend to go down. Federal Reserve actions affecting the supply may accentuate these changes in interest rates.

If society doesn't like high interest rates, it can see to it that rates are held down. But here, too, there are effects many may not like. The Fed has found from experience that interest rates can be held down only if it supplies all the funds the economy wants.

This experience dates back to World War II and the immediate postwar years when the Federal Reserve was pegging rates on Government securities. Something like the same thing happened that is happening in our farm program. When the U.S. pegs the price of, say, wheat, it finds itself holding all the wheat nobody else wants at that price. When the Fed held down interest rates on (or supported prices of) Government securities, it ended up holding all the Governments no one else wanted at those rates. Lenders saw they could get a better return on business and consumer loans, corporates, and municipals, so they sold their Government securities. The Fed bought them, paid for them with new reserves, made it possible for banks to expand their loans and investments further, and the money supply expanded. This encouraged inflation.

The Federal Reserve cannot artificially hold down interest rates and still restrict the expansion of money and credit. On this issue, unlike the others we have discussed, *there is no middle ground.*

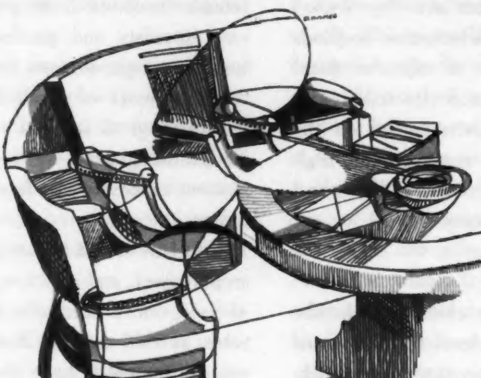
The real question, therefore, is not whether rates are too high or not. The question is how to maintain a growing, healthy economy. If we do this by regulating money and credit and in the

process find that interest rates are "too high," then we must decide what alternative methods we would prefer. Except for an effective fiscal policy, these alternatives almost invariably involve some sort of direct intervention in the economy. The real issue is not between high and low interest rates, but between indirect and direct controls over the economy.

Conclusions

Making monetary policy in a real world is like walking a tightrope. The Federal Reserve must help the economy grow, at the same time working toward full employment and a stable dollar. In doing so it must weigh domestic considerations against foreign considerations. As an agency operating in the public interest, it must be responsible to Government; but it also must remain insulated from pressures exerted by private interests and partisan political groups. It must be responsive to social wants, but within the framework of a relatively free economy. On the question of interest rates, however, there is no middle ground. If the Fed is to do its job, interest rates must be free to move up as well as down.

All of us would like to see more growth, more employment, stable prices, an end to the outflow of gold, more economic freedom, lower interest rates, and all the rest. But it is a fact of life that we can't always have them all, 100 per cent. The Federal Reserve's job is to help us get as much of them as possible. Its really difficult task is deciding when to give way here in order to gain a little bit there. This is the tightrope monetary policy is always walking.



FEDERAL RESERVE BANK DIRECTORS

For most people, Thursday is like any other working day and there is no particular difference between one Thursday and another. Not so at this Bank, for Thursday is the day the board of directors meets—the first and third Thursday of each month.

As the board meeting day approaches, the Bank is astir with more than its usual activity. By way of preparing reports of their stewardship, the president and the vice presidents in charge of the major blocks on the organization chart call for a variety of information from their assistants. There is much advising and conferring, checking and charting, telephoning and typing, writing and wiring before all the reports are properly dressed up for presentation to the board. Even the page girls do greater mileage.

Promptly at 10:30 in the morning, come deep snow or high water, the chairman calls to order the nine-man board assembled around the oval table, interspersed with officers of the Bank. The walls of the board room are bedecked with an assortment of charts on various aspects of business and credit developments, freshly updated with the latest wiggles and waggles. While each director reads his copy of the minutes of the preceding meeting, the pervading silence is violated only by the muffled rumble of Chestnut Street traffic below and the muted clatter of check-handling machinery above. These machines run night and day and stop for no one.

Meet the board

You are in for a surprise if you expect to meet an obesity of bald and bespectacled dividend clippers, so frequently caricatured in the smart magazines. If there are such boards, this is not one of them.

All of the members of this board are active in business and civic affairs in their respective

communities. All of them serve as a matter of public duty at considerable sacrifice of time and energy. Some of them are required to travel a substantial distance to attend the fortnightly meetings. None of them is bent over with years. All are very human.

The people at present serving on this board are listed on page 19 of this Annual Report issue. There you can see who they are, where they come from, their occupations, and the expiration dates of their terms of office. The directors are arrayed in trios with alphabetic and numeric labels, which will be explained as the men are introduced.

The three at the top of the list, designated Class A, are bankers. Frederic A. Potts is president of the Philadelphia National Bank nearby, so near that he can get to a board meeting quicker by walking than riding down Chestnut Street's slowly moving traffic. J. Milton Featherer is one of the newly elected directors just beginning his term. He comes from the other side of the river in New Jersey where he is executive vice president and trust officer of the Penn's Grove National Bank and Trust Company. O. Albert Johnson is president of the First National Bank of Eldred, on the far northwestern edge of the district, where oil began to flow over a century ago and still flows with the help of pumps.

Special provision is made to assure representation by banks of various size. To achieve this, all member banks of the district are divided into three groups—large, medium, and small—on the basis of their capitalization, and each bank regardless of size has one vote. Hence, the numerical "group" designation. Mr. Potts was elected by the Group 1, or big banks, Mr. Featherer by the medium-sized banks, and Mr. Johnson by the small banks.

The Class B directors are elected by the same procedure, but, unlike Class A directors who may be bankers and usually are, Class B directors may not, must not, and cannot be bankers. Anyone who is an officer, director, or employee of a bank is ineligible. Though chosen by the member banks, Class B directors at the time of their election are people actively engaged in the district in business, agriculture, or some commercial pursuit.

The three Class B directors currently serving on the board happen to be engaged in manufacturing. Frank R. Palmer, who was elected by the large Group 1 banks, is chairman of the Carpenter Steel Company of Reading, Pennsylvania. The company manufactures specialty steel products. R. Russell Pippin, elected by the medium-sized banks, is treasurer of E. I. du Pont de Nemours & Company of Wilmington, Delaware. Elected by the small banks and just beginning his term is Leonard P. Pool, president of Air Products, Inc., of Allentown, Pennsylvania.

Unlike the Class A and Class B directors, who are elected by the member banks of the district, the Class C directors are appointed by the Board of Governors in Washington. One of the appointees is always designated as Chairman and Federal Reserve Agent, and another as Deputy Chairman. As Federal Reserve Agent, the Chairman represents the Board of Governors in the handling of certain functions such as the issuance of notes to the Reserve Bank. The Deputy Chairman takes over in the absence of the Chairman.

Chairman and Federal Reserve Agent is Henderson Supplee, Jr., president of the Atlantic Refining Company of Philadelphia. Deputy Chairman is Walter E. Hoadley, vice president and treasurer of the Armstrong Cork

Company of Lancaster, Pennsylvania. Armstrong Cork is a manufacturer of building materials, floor coverings, and related products. The third member of the Group is David C. Bevan, vice president, Finance, the Pennsylvania Railroad Company. Class C, like Class B directors, may not be officers, directors, or employees of any bank. In fact, Class C directors may not even be stockholders in a bank—so completely must they be divorced from banking.

From the foregoing it is apparent that the directorate is a three-ply laminated board of meticulous construction from material very carefully selected. The designing and engineering were conceived by the framers of the Federal Reserve Act. The purpose of all the classification, stratification, and different ways of selection is to assure a directorate of men of different calling, varied background, unlike experience, and diverse points of view. Both bankers and non-bankers serve on the board and the latter outnumber the former to prevent a banker-dominated directorate, and, as already observed, little banks have as much voice and as many votes as the big ones. Among the non-bankers are men of diversified activities and experience. There is an oil man, a steel man, a railroader, a manufacturer of building materials, and manufacturers in two different divisions of the chemical industry. Collectively, the board is a cosmopolitan gentry—professionally and geographically.

Duties of Reserve Bank directors

A Federal Reserve Bank is a unique institution. On the outside it looks like an ordinary commercial bank, with its massive masonry suggestive of solidity and impregnability. Inside it looks even more like just an ordinary bank when you see the armed guards, the caged tellers, the vice presidents, the money-counting machines, and the vaults. The resemblance goes still further in that there is a general ledger, bookkeeping machines, money lending, check clearing, and unannounced bank examiners making their appearance usually at the most inconvenient times. And of course stockholders and a board of directors.

Despite the many resemblances, however, there is a basic and fundamental difference. A commercial bank is in business to make profit; a Federal Reserve Bank is not. The directors of a commercial bank or any industrial or commercial corporation are elected by the stockholders to supervise the company's affairs in the interest of the stockholders. Their major interest is maximum dividend return on their invested capital. The best directors, therefore, are men who can make the best yardage toward the goal of profits. Not so the Federal Reserve directorate.

The Federal Reserve Act requires directors to administer the affairs of the Bank fairly and impartially and without discrimination in favor of or against any member bank or banks. The Act further specifies that "Each Federal Reserve Bank shall keep itself informed of the general character and amount of loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions. . . ." Accordingly, the board is concerned with the lending and investing activities of member banks and the relation of these activities to the maintenance of healthful credit conditions. How the board seeks to fulfill its public obligations is perhaps best understood by observing how it works.

The board at work

After a review and approval of the minutes of the preceding meeting, the chairman invariably calls for a report of the credit-discount operations from the appropriate officer. In other words, what the board wants to know first is how much money the Bank has been lending to the member banks of the district.

In their quest for profits, member banks compete with each other in lending money; that is, extending credit to borrowers. When credit, so extended, is used for the production and consumption of goods and services, it plays a useful and salutary role in the economy. And when banks encounter unexpected needs for reserves which cannot reasonably be met from their own resources, they may turn to the Federal Reserve Bank for credit.

The discount rate, the rate paid by member banks when they borrow from the Reserve Bank, is one of the instruments of credit control. When the board of directors believes some restraint in credit expansion is called for, it may raise the rate. The higher rate discourages borrowing by making it more costly, in turn putting pressure on the member banks to curtail their lending. Under different circumstances when business is slack, the board encourages borrowing by reducing the discount rate, tending to make credit cheaper. In deciding what action to take with respect to the rate, the directors consider what is being done with the other instruments—open market operations, reserve requirements, and margin requirements—for which they have no statutory responsibility. In this consideration, they are aided by recommendations of the president who also participates in meetings of the Federal Open Market Committee where all of the instruments are discussed.

Before establishing the discount rate, however, the board of directors undertakes a thoroughgoing analysis of current and prospective business conditions. In this task the directors are assisted by an analysis of business conditions both locally and nationally by the vice president in charge of research. With the aid of professional assistants on his staff, he brings to the attention of the directors all available and pertinent information on business and credit developments that have taken place since the previous meeting of the board. The review covers the whole gamut of economic activity—production and consumption, borrowing and lending, employment and unemployment, saving and investing, and, from time to time, the results of special research surveys undertaken to throw light on prospective developments in such areas as capital investment plans or consumer buying intentions or mortgage financing and residential construction.

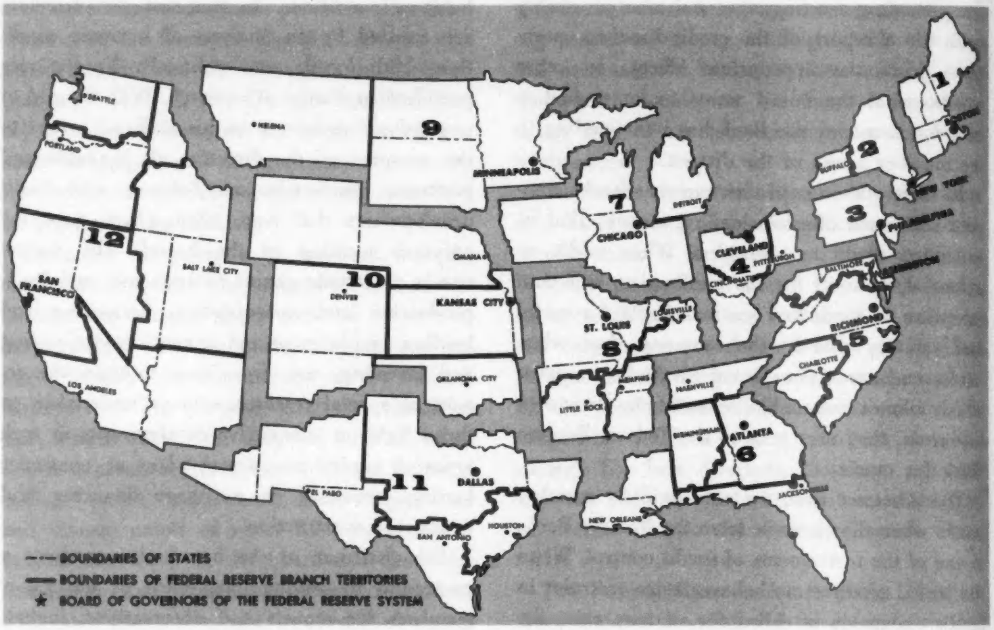
The chairman of the board also conducts a go-around by calling upon each of his fellow members for reports and observations, including latest developments in his company or industry. With their diverse business contacts they are able to make significant contributions to the common fund of knowledge.

Before voting on the establishment of the discount rate, the board is also briefed on fiscal operations of the Treasury. A review and preview of the ebb and flow of funds in Uncle Sam's monumental money basket have an important bearing on the total demand, availability, and cost of credit inasmuch as the Federal Government is the country's biggest borrower and spender.

Upon careful consideration of all facts obtainable, the board establishes the discount rate, which is subject to "review and determination" by the Board of Governors. Although the Board

FEDERAL RESERVE SYSTEM

Boundaries of Federal Reserve Districts and their branch territories in the continental United States.



of Governors has the final say, the directors initiate changes in the rate.

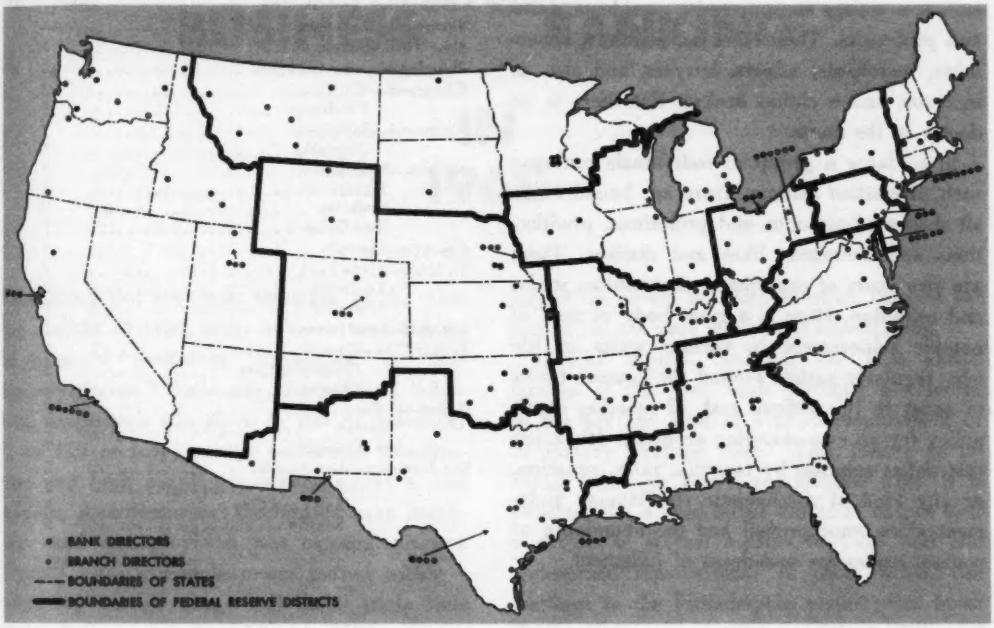
Establishing the discount rate is one of the major functions of the directorate, but by no means its sole responsibility. Mention has been made of the fact that the Bank is not run for profit, but that does not mean it is run like a volunteer church choir. The board of directors oversees all major aspects of the Bank's operations, scrutinizes expenses, approves large capital outlays, exercises control over salaries and other expenditures. Much of this work is expedited by specially appointed committees, notably audit, budget, building, personnel, and an executive committee. For the purpose of improving efficiency, comparisons are constantly being made in various financial and operating ratios among the 12 Federal Reserve Banks, each striving for the best performance.

Country-wide counsel

We have seen how the board of directors of this Bank is constituted, what duties it performs, and how the board operates. The boards of the other Federal Reserve Banks are constituted in the same way, perform similar duties in their respective districts, and with minor variations, operate in like manner.

The country is divided into 12 Federal Reserve Districts. The location of the banks and the delineation of the districts are shown in the first of two maps. Each district is officially identified by a number and the location of the bank in each district is indicated in large type. The

PLACES OF BUSINESS OF BANK DIRECTORS



trouble with a map is that it's so flat and doesn't show such things as the importance of steel in the Cleveland district, tobacco in the Richmond district, petroleum in the Dallas district, or lumber and aircraft in the San Francisco district. But it is difficult for an economic activity of any consequence to go unrepresented in the Federal Reserve System because the 12 banks have 108 directors.

And there are still more. On the map just referred to are a number of cities in smaller type indicating the location of branches of the Federal Reserve Banks. All districts, except Boston and Philadelphia, have one or more branch banks. Each branch has its own board of directors, consisting of either five or seven individuals as indicated in the table on the next page.

Adding the 152 directors of branches to the 108 directors of the mother banks makes a total of 260 directors.

The second map, where each black dot indicates the place of business of a Bank director and each blue dot that of a branch director, shows how the country is peppered with Federal Reserve directors. The heaviest concentration, as might be expected, is in the populous East but most of the states have one or more representatives on some Bank or branch board.

The widely dispersed regional representation is matched by a highly diversified occupational or professional representation. Heading the list of directors other than bankers are manufacturers—officials associated with firms that manufacture drugs, foods, furniture, paper, steel, and

other products. It may or may not surprise you to find educators in second place. This group embraces college and university presidents, deans and professors. Then there are farmers, economists, merchants, miners, lawyers, and also an inventor, and a cotton broker. But there is no doctor in the house.

In so large a group of individuals pursuing such diversified callings, there are bound to be all shades of opinions and prejudices, predilections and aversions, likes and dislikes. There are also years of experience, observation, study, and reflection. Here is a great body of men of notable achievement in various walks of life who regularly gather around the counsel tables to assist in the difficult task of molding credit policy for an ever-changing economy. It's a job that defies solution by formula, ratio, equation, or any kind of mechanistic rig. Human judgment alone must prevail and the abundance of counsel makes for soundness of judgment.

FEDERAL RESERVE BRANCH BANKS

DISTRICT BRANCHES	NUMBER OF DIRECTORS
Boston—no branches	—
New York—Buffalo	7
Philadelphia—no branches	—
Cleveland—Cincinnati	7
Pittsburgh	7
Richmond—Baltimore	7
Charlotte	7
Atlanta—Birmingham	7
Jacksonville	7
Nashville	7
New Orleans	7
Chicago—Detroit	7
St. Louis—Little Rock	7
Louisville	7
Memphis	7
Minneapolis—Helena	5
Kansas City—Denver	5
Oklahoma City	5
Omaha	5
Dallas—El Paso	7
Houston	7
San Antonio	7
San Francisco—Los Angeles	5
Portland	5
Salt Lake City	5
Seattle	5
	152

NEW RELEASE

Forecasts for 1961. The Department of Research has compiled and analyzed a number of predictions made by businessmen, economists and Government officials. This compilation includes a summary of forecasts for the economy as a whole and particular sectors of the economy. The more important indicators are presented in chart form.

Copies of this release are available on request from the Bank and Public Relations Department, Federal Reserve Bank of Philadelphia.

BUSINESS AND BANKING IN 1960

Describing the economic situation in the closing months of 1960, many analysts were talking in terms of "hesitation," "recession," or "rolling adjustment." Nationally, the index of industrial production was down to 105 in November from 110 in July; private residential construction had been running materially under a year earlier; manufacturers' inventories were declining; and unemployment was causing concern. During 1960 wholesale prices moved within a relatively narrow range and retail trade little more than equaled the volume in 1959.

Business conditions in the Third District

Mixed tendencies were apparent in Third District business activity. Capital expenditures of manufacturers in the Philadelphia area were the largest on record in 1960. In other respects the record for the year was not as encouraging.

District figures covering the first eleven months of the year show virtually no change in the average level of over-all employment or in factory working time. Their failure to increase takes on added significance when it is recalled that a steel strike curtailed output over a period of several months in 1959 and had widespread repercussions in other fields. Car loadings in the Philadelphia region were fewer than in the corresponding period of 1959, and more marked declines were reported in anthracite coal production and in contracts let for residential construction. Sales of department stores were much the same in both years but, as in the country as a whole, registrations of

BUSINESS INDICATORS

Third Federal Reserve District

Percent change 1959 to 1960

	Change		Change
Employment (14 areas)*	+ 0%	Car loadings (Philadelphia region)*	— 5%
Factory payrolls*	+ 3	Retail sales, total (excluding national chains)**	— 1
Factory working time*	0	Department store sales*	+ 1
Electric power consumed by manufacturers*	+ 6	Automobile registrations (48 counties, eastern Pennsylvania)*	+14
Anthracite coal output*	—12	Bank debits (20 cities)*	+ 5
Construction contracts:			
Residential*	—18		
Nonresidential*	— 2		
Public works and utilities*	+ 3		

* First eleven months. ** First ten months.

UNEMPLOYMENT IN MAJOR LABOR MARKET AREAS

Third Federal Reserve District

	Number of areas		
	Nov. '60	Nov. '59	Nov. '58
Percent of labor force unemployment:			
1.5 to 2.9%	0	1	0
3.0 to 5.9%	8	7	3
6.0 to 8.9%	0	2	5
9.0 to 11.9%	3	0	1
12% or more	2	3	4
Total number	13	13	13

new passenger automobiles picked up considerably. The accompanying table shows that the economy continues to be plagued by areas of pronounced unemployment, despite efforts to attract new industries.

Commercial bank operations

Outstanding credit of member banks in the Third District totaled $8,745 million in late December, an increase of $543 million over the level at the end of 1959. There was relatively little net change in member bank investments, but the loans of both reserve city and country banks tended sharply upward. Much of the increase at reserve city banks was in business loans and in the unclassified group which includes consumer loans.

The required reserves of member banks declined early in the year, but subsequently the trend was strongly upward as deposits expanded, largely in response to climbing loan portfolios. Permission to use vault cash in meeting reserve requirements helped to ease the reserve problem. As the year progressed, borrowings of both reserve city and country banks from the Reserve Bank declined. Additional data for the reserve city banks, however, show more active borrowing in the federal funds market and higher total borrowings, on the average, than in 1959.

Earnings data for the year as a whole are not yet available. First-half results, however, reflect some of the circumstances under which banks operated during 1960. Total earnings of Third District member banks were up 14 per cent from a year earlier, due mainly to the expansion in loans. Expenses also were higher, owing partly to pronounced growth in time deposits and the higher rates paid on such balances by many institutions. Nevertheless, current net earnings moved up $10 million to $79 million. Income

MEMBER BANKS

Third Federal Reserve District

(Millions $)	Dec. 31, 1958	Dec. 31, 1959	Change in 1959	Dec. 28, 1960	Change in 1960*
Loans	4,347	4,865	+518	5,367	+502
Investments	3,589	3,337	−252	3,378	+ 41
Total earning assets	7,936	8,202	+266	8,745	+543
Deposits (less cash items in process of collection)	8,549	8,657	+108	9,097	+440

* Through December 28.

tax payments were heavier, but losses or charge-offs on securities declined. Following these and other adjustments the banks reported approximately $39 million of net profits available for distribution, an amount almost $9 million larger than in the first six months of 1959.

Reserve Bank operations

In the course of the year 208 member banks, more than two-fifths of the total number, borrowed from the Reserve Bank. Save for the 224 reported in 1959, this was the largest number receiving discount accommodation in any year since 1934. In dollars, however, the decline was much more pronounced—from an average of $42 million in 1959 to $20 million in 1960.

Data for other operations of the Bank show mixed changes. Increases in the number and amount of checks handled were small, but larger proportionate increases were reported in transfers of funds, possibly reflecting a heavier volume of federal funds transactions. Gains also were registered in the number of depositary receipts for withheld taxes processed, in Government securities issued or redeemed, and in coupons redeemed, but declines were shown in currency and coin counted, and in the number of postal money orders, postal remittances, and non-cash items handled.

Over the past year preparations have gone on apace for the handling of checks having magnetic ink encodement. Part of the equipment already is in place and the key item—the computer—is being shipped to us as the year closes. Staff members have been trained to handle the operations, and programs to be used in the computer have been worked out in detail and tested. The checks of many banks already include the imprint and others are being urged to adopt it as they place orders for new supplies.

Another computer is on order for use in Bank operations and the handling of research problems and statistical data. This phase of the work also is being pursued actively and programs are being prepared for use in computer operations.

Responding to public interest in the Federal Reserve is one of numerous activities in the Bank's bank relations and public information program. While Federal Reserve policy decisions receive considerable attention in the financial press, local public interest often takes the form of requests for speeches, publications, films, and tours of the Bank. Efforts are made to respond to all reasonable requests for the purpose of contributing to public understanding of the Federal Reserve. As authors of *Business Review* articles become better known and as other speakers from the Bank gain followings, the demand for their services increases. During the year, all country banks were visited once by Bank representatives to help install new procedures initiated by the Reserve Bank and to gather information on developments in the District. Conferences were held throughout the District as the Bank continued its program of exchanging views on business and credit trends.

DIRECTORS AND OFFICERS

Two new directors were elected in the fall, to serve for three-year terms from January 1, 1961. J. Milton Featherer, Executive Vice President and Trust Officer of the Penn's Grove National Bank and Trust Company, Penns Grove, New Jersey, was elected as a Class A director by banks in Group 2, succeeding William B. Brosius. Banks in Group 3 selected Leonard P. Pool, President and Director of Air Products, Incorporated, Allentown, Pennsylvania, as a Class B director. Mr. Pool succeeds Bayard L. England.

The Board of Governors of the Federal Reserve System reappointed Walter E. Hoadley as a Class C director for a term of three years. Henderson Supplee, Jr. and Mr. Hoadley will continue to serve as Chairman and Deputy Chairman, respectively, during 1961.

Howard C. Petersen, President of the Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, will serve as the District's representative on the Federal Advisory Council during 1961, by appointment of the Board of Directors of this Bank. He succeeds Casimir A. Sienkiewicz, who represented the District in 1958, 1959, and 1960.

Effective November 1, 1960, four Senior Examiners were made Examining Officers of the Bank. They are Harold M. Griest, Leonard Markford, Jack H. James, and G. William Metz. The title of Joseph M. Case was changed to Chief Examining Officer. Jack H. Besse, presently assisting in the development of machine methods and general planning, became an Assistant Cashier on January 1, 1961. On the same date Ralph E. Haas and Henry J. Nelson, previously Assistant Cashiers, became Assistant Vice Presidents.

DIRECTORS AS OF JANUARY 1961

Group		Term expires December 31
	CLASS A	
1	FREDERIC A. POTTS President, The Philadelphia National Bank, Philadelphia, Pennsylvania	1962
2	J. MILTON FEATHERER Executive Vice President and Trust Officer, The Penn's Grove National Bank and Trust Company, Penns Grove, New Jersey	1963
3	O. ALBERT JOHNSON President, The First National Bank of Eldred, Eldred, Pennsylvania	1961
	CLASS B	
1	FRANK R. PALMER Chairman, The Carpenter Steel Company, Reading, Pennsylvania	1961
2	R. RUSSELL PIPPIN Treasurer, E. I. du Pont de Nemours & Company, Wilmington, Delaware	1962
3	LEONARD P. POOL President, Air Products, Incorporated, Allentown, Pennsylvania	1963
	CLASS C	
	HENDERSON SUPPLEE, JR., Chairman President, The Atlantic Refining Company, Philadelphia, Pennsylvania	1961
	WALTER E. HOADLEY, Deputy Chairman Vice President and Treasurer, Armstrong Cork Company, Lancaster, Pennsylvania	1963
	DAVID C. BEVAN Vice President, Finance, Pennsylvania Railroad Company, Philadelphia, Pennsylvania	1962

OFFICERS AS OF JANUARY 1961

KARL R. BOPP
President

ROBERT N. HILKERT
First Vice President

JOSEPH R. CAMPBELL
Vice President

WALLACE M. CATANACH
Vice President

DAVID P. EASTBURN
Vice President

MURDOCH K. GOODWIN
Vice President, General Counsel and Assistant Secretary

PHILIP M. POORMAN
Vice President

JAMES V. VERGARI
Vice President and Cashier

RICHARD G. WILGUS
Vice President and Secretary

EVAN B. ALDERFER
Economic Adviser

CLAY J. ANDERSON
Economic Adviser

JOHN R. BUNTING, JR.
Business Economist

EDWARD A. AFF
Assistant Vice President

HUGH BARRIE
Assistant Vice President

NORMAN G. DASH
Assistant Vice President

ZELL G. FENNER
Assistant Vice President

RALPH E. HAAS
Assistant Vice President

GEORGE J. LAVIN
Assistant Vice President and Assistant Secretary

HENRY J. NELSON
Assistant Vice President

HARRY W. ROEDER
Assistant Vice President

JOSEPH M. CASE
Chief Examining Officer

HAROLD M. GRIEST
Examining Officer

JACK H. JAMES
Examining Officer

LEONARD MARKFORD
Examining Officer

G. WILLIAM METZ
Examining Officer

JACK H. BESSE
Assistant Cashier

ROY HETHERINGTON
Assistant Cashier

WILLIAM A. JAMES
Personnel Officer

WARREN R. MOLL
Assistant Cashier

FRED A. MURRAY
Director of Plant

RUSSELL P. SUDDERS
Assistant Cashier

HERMAN B. HAFFNER
General Auditor

STATEMENT OF CONDITION

FEDERAL RESERVE BANK OF PHILADELPHIA

(000's omitted in dollar figures)	End of year 1960	1959
ASSETS		
Gold certificate reserves:		
Gold certificate account	$1,055,712	$1,050,113
Redemption fund—Federal Reserve notes	66,251	60,965
Total gold certificate reserves	$1,121,963	$1,111,078
Federal Reserve notes of other Federal Reserve Banks	42,519	43,544
Other cash	10,793	18,085
Loans and securities:		
Discounts and advances	4,192	43,055
United States Government securities	1,545,012	1,517,281
Total loans and securities	$1,549,204	$1,560,336
Due from foreign banks	1	1
Uncollected cash items	412,324	394,830
Bank premises	3,791	4,036
All other assets	12,043	14,638
Total assets	$3,152,638	$3,146,548
LIABILITIES		
Federal Reserve notes	$1,867,323	$1,807,990
Deposits:		
Member bank reserve accounts	831,788	892,994
United States Government	27,038	37,645
Foreign	12,626	22,968
Other deposits	5,700	32,548
Total deposits	$ 877,152	$ 986,155
Deferred availability cash items	334,971	281,609
All other liabilities	1,697	1,513
Total liabilities	$3,081,143	$3,077,267
CAPITAL ACCOUNTS		
Capital paid in	$ 23,832	$ 22,819
Surplus	47,663	45,638
Reserves for contingencies	*	824
Total liabilities and capital accounts	$3,152,638	$3,146,548
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	40.9%	39.8%

* Reserve account eliminated and funds paid to United States Treasury as authorized by the Board of Governors of the Federal Reserve System.